

MALAYSIA¹

MINIMUM WAGE

There is no national minimum wage in Malaysia. A government-prescribed minimum wage was abandoned more than twenty years ago and is not viewed as necessary due to Malaysia's chronically tight labor market and resulting upward pressure on wages.

The Wage Councils Act provides for a minimum wage in those sectors and regions of the country where a need exists.² Under the law, workers who believe they need the protection of a minimum wage may request that a wage council be established. However, few workers are now covered by minimum wages set by wage councils and the government prefers to let market forces determine wage rates.

Under the employment Act of 1955, working hours may not exceed 8 hours per day or 48 hours per workweek of 6 days and provisions are made for overtime; each workweek must include one 24-hour rest period.³

PREVAILING OR AVERAGE WAGE

The U.S. Embassy was not able to provide any information on prevailing wages in the footwear and apparel industries.

The table below presents available data from the International Labor Organization (ILO) on average monthly earnings (direct wages per worker) in Malaysia for all employees in the manufacturing sector and in the apparel and footwear industries. They include pay for time worked, paid leave, bonuses, and other benefits paid directly to the employee, but not the cost of social insurance programs.⁴ No data were available from the ILO for average hours worked per week by all employees in manufacturing or in the apparel or footwear industries. Current average earnings, which are reported by the ILO in the national currency, were converted to US\$ using the annual average exchange rate published in the International

¹Unless noted otherwise, information presented here is from American Embassy—Kuala Lumpur, unclassified telegram No. 788 (April 6, 1999).

² U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 1004.

³ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 1004.

⁴ International Labour Organization, *Yearbook of Labour Statistics, 1998* (Geneva: International Labour Office, 1998), p. 805.

Monetary Fund's *International Financial Statistics* (March 1999). To track changes in real earnings (i.e., earnings adjusted for inflation), a real earnings index was computed by deflating current earnings in the national currency with the annual average national consumer price index as published in the International Monetary Fund's *International Financial Statistics* (March 1999), indexed to 1990 = 100.

Average Monthly Earnings in All Manufacturing, Apparel, and Footwear

Year	All Manufacturing		Apparel		Footwear		Real Earnings Index (RM: 1990=100)		
	(RM)	(US\$)	(RM)	(US\$)	(RM)	(US\$)	Manuf.	Apparel	Footwear
1990	660	244	493	182	458	169	100	100	100
1991	719	261	525	191	573	208	104	102	120
1992	794	312	600	236	529	208	110	111	106
1993	848	329	636	247	765	297	114	114	148
1994	928	354	706	269	789	301	120	122	147
1995	1,002	400	742	296	807	322	123	122	143
1996	na	na	na	na	na	na	na	na	na
1997	na	na	na	na	na	na	na	na	na

Note: na = not available.

Source: ILO, *Yearbook of Labour Statistics*, 1998, p. 911.

NON-WAGE BENEFITS

There are no government-mandated non-wage benefits or tax credits for workers in the apparel and footwear industries other than those in the Employment Act and the Workmen's Compensation Act, which apply to all industries.

A U.S. Social Security Administration survey⁵ elaborates on two non-wage benefits programs in which employers in Malaysia must participate on behalf of their employees: (1) old age, disability, and death benefits, begun in 1951, are provided through a provident fund and a social insurance dimension was added in 1969. The insured person contributes 11 percent of their earnings to the provident fund and 0.5 percent to the disability fund according to 24 wage classes, employers contribute 12 percent of the payroll to the provident fund and 0.5 percent of payroll to the disability fund according to the 24 wage classes, and the government pays nothing. For sickness and maternity benefits, medical care is available in government dispensaries and hospitals, and a nominal fee is charged to persons able to pay; (2) work injury benefits, begun in 1929, are financed entirely by employers who pay 1.25 percent of the payroll according to 24 wage classes.

ASSESSING BASIC NEEDS: THE POVERTY LINE

The most recent data available regarding the poverty line is based on the 1995 Household Income Survey

⁵ Social Security Administration, *Social Security Programs Throughout the World - 1997* (Washington: U.S. Government Printing Office, August 1997), pp. 231-232.

(HIS). The 1995 HIS identifies the following poverty line incomes: 425 ringgit Malaysia (RM) per month for a household size of 4.6 in peninsular Malaysia and RM601 per month for a household size of 4.8 in Sarawak, East Malaysia. The 1995 HIS estimates the incidence of poverty among Malaysian citizens at 370,200 households, or about 8.9 percent of the total number of households.

A compendium of poverty and income distribution statistics prepared by the International Labor Organization⁶ reports several sets of measures of a national poverty line for Malaysia:

! For 1980, 37.4 percent of the rural and 12.6 percent of the urban Malaysian households were below the official poverty line (RM270 per household per month in 1978 prices), with a national poverty rate of 29.0 percent;

for 1987, 22.4 percent of the rural and 8.3 percent of the urban households were below the official poverty line (RM350 per household per month in 1987 prices), with a national poverty rate of 17.3 percent; and

for 1989, 19.3 percent of the rural and 7.3 percent of the urban households were below the official poverty line, with a national poverty rate of 15.0 percent.⁷

! for 1985, 6.7 percent of the Malaysian population was below the poverty line of US\$31 per capita per month in 1985 purchasing power parity adjusted US\$ (or RM39).⁸

⁶ Hamid Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data* (Geneva: International Labour Office, 1996), pp. 37-38.

⁷ The estimates are referenced as originating from the Government of Malaysia, *Mid-term Review of the Fourth Malaysia Plan, 1981-1985* (Kuala Lumpur, 1984), *Mid-term Review of the Fifth Malaysia Plan, 1986-1990* (Kuala Lumpur, 1989), and *Sixth Malaysia Plan, 1991-1995* (Kuala Lumpur, 1991). The government studies appear to have estimated the incidence of poverty by calculating a poverty line income and then comparing it to the actual income reported in income surveys to determine the number of households with incomes below the poverty line income. The World Bank has raised some questions about the methods which relate to coverage, consistency over time, and the use of indirect income estimates. The poverty line income is adjusted annually for inflation, but not for cost of living differences in rural and urban areas. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 151.

⁸ The estimate is referenced as originating from Elaine K. Chan, "A Compendium of Data on Poverty and Income Distribution," Background Paper for the *World Development Report 1990* (Washington: World Bank, 1990), pp. 45-46. Income data from the *Household Income and Expenditure Survey 1984* were converted into expenditures by assuming a national savings rate of 33 per cent (to ensure comparability between poverty estimates in Malaysia and other countries). An absolute poverty line, defined as an expenditure level below which basic needs cannot be satisfied, was arbitrarily set 35 percent higher than the Indian poverty line for rural areas which at that time was considered to be more representative of many developing countries. The poverty line corresponded to US\$31 after adjustment for purchasing power parity had been made to the 1985 official exchange rate. The purchasing power parity poverty line was converted into the national currency using estimates from Robert Summers and Alan Heston, "A New Set of International Comparisons of Real Product and Price Levels: Estimates for 130 Countries, 1950-1985," *Review of Income and Wealth*,

! for 1989, 6.4 percent of the Malaysian population was below the poverty line of US\$30.42 per capita per month (i.e., US\$1 per day) in 1985 purchasing power parity adjusted US\$.⁹

The World Bank reports¹⁰ that, in 1989, 15.5 percent of the Malaysian population was below the country-specific poverty line. The same source reports that, in terms of international poverty measures, in 1995, 26.6 percent of the Malaysian population was below the international poverty line of US\$2 per person per day and 5.6 percent of the population was below the international poverty line of US\$1 per person per day, both in 1985 purchasing power parity adjusted US\$.

MEETING WORKERS' NEEDS

There is little conclusive evidence on the extent to which wages and non-wage benefits in the footwear or apparel industries in Malaysia meet workers' basic needs. Some information from U.S. Department of State or U.S. Embassy reports indicates more generally that minimum wages set by wage councils generally do not provide for a decent standard of living for a worker and family; however, prevailing wages, even in the sectors covered by the wage councils, are higher than the minimum wages set by the wage councils and do provide a decent living.¹¹ The U.S. Embassy did not identify any studies on the living wage in Malaysia.

Series 34, No. 1 (March 1988), pp. 1-25. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, pp. 136; 151.

⁹ The estimate is referenced as originating from Shashou Chen, Gaurav Datt, and Martin Ravallion, "Is Poverty Increasing in the Developing World?" *Policy Research Working Paper* WPS 1146 (Washington: World Bank, 1993). This study uses essentially the same methodology as the World Bank's *World Development Report 1990*, but with updated purchasing power parity rates. See Tabatabai, *Statistics on Poverty and Income Distribution: An ILO Compendium of Data*, p. 137.

¹⁰ World Bank, *World Development Indicators 1999* (Washington: World Bank, 1999), p. 67.

¹¹ U.S. Department of State, *Country Reports on Human Rights Practices for 1998* (Washington: U.S. Government Printing Office, April 1999), p. 1004.